

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01
CIAE-00 COME-00 DODE-00 EB-08 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-05 USIA-06
OES-07 SP-02 SS-15 STR-05 TRSE-00 ACDA-12 /108 W
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R 291318Z NOV 77
FM AMEMBASSY OSLO
TO SECSTATE WASHDC 4833
INFO AMEMBASSY COPENHAGEN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY STOCKHOLM
AMEMBASSY BRUSSELS

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BRUSSELS PASS USEC

PARIS FOR USOECD

E.O. 11652: N/A
TAGS: ENRG, OECD, NO
SUBJECT: NORWEGIAN OIL DEVELOPMENTS: POST-ELECTION DIRECTIONS

1. SUMMARY: 1977 PARLIAMENTARY ELECTIONS ARE OVER, AND
INCUMBENT SOCIAL-DEMOCRATIC LABOR PARTY RETAINS CONTROL
OF GOVERNMENT; AUTHORITIES, KEENLY AWARE THAT PRODUCTION
AND RESOURCES FROM OIL FIELDS NOW COMMITTED TO DEVELOPMENT
WILL PEAK AND SHARPLY DECLINE WITHIN A RELATIVELY FEW YEARS,
NOW SEE AS URGENT NEED FOR NEW MEASURES TO INSURE A STEADY
PRODUCTION TEMPO AND RELATIVELY CONSTANT REVENUE STREAM
WELL PAST 1985. TO THIS END, WE EXPECT FOLLOWING "NEXT
STEPS" TO BE TAKEN OVER MONTHS AHEAD:

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--PROPOSAL TO PARLIAMENT IN DECEMBER THAT SIXTEEN
NEW BLOCKS BE LEASED FOR EXPLORATION; PROPOSAL WILL INCLUDE
NEW CRITERIA FOR LEASE ISSUANCE KEYED TO SAFETY AND
ENVIRONMENTAL CONCERNS;

--PROPOSAL TO PARLIAMENT IN JANUARY OR FEBRUARY 1978 THAT ON
BASIS OF LESSONS LEARNED FROM BRAVO BLOWOUT, GENERAL ENDORSE-

MENT BE GIVEN TO NEW LEASING CRITERIA AS AN ADEQUATE BASIS FOR FURTHER OIL DEVELOPMENT SOUTH OF 62ND PARALLEL;

--AGREEMENT BY PARLIAMENT'S INDUSTRY COMMITTEE TO BOTH GOVERNMENT'S NEW LEASING CRITERIA AND TO NEW LEASES, MORE OR LESS SIMULTANEOUSLY IN MID-SPRING;

--DRILLING IN NEW BLOCKS TO BEGIN IN MID-1978;

--FURTHER LEASING TO FOLLOW IN 1979. END SUMMARY.

2. BACKGROUND

A. OFFICIAL NORWEGIAN OIL POLICY, AS STATED IN REPORT TO PARLIAMENT NO 25 (1974), IS TO INTEGRATE THE OIL SECTOR INTO NORWAY'S TRADITIONAL STRUCTURE WITH AS LITTLE DISRUPTION TO DEMOGRAPHIC PATTERNS AND ENVIRONMENTAL DAMAGE AS POSSIBLE. IN ADDITION, OIL REVENUE IS NOT TO BE ALLOWED TO "SPOIL NORWAY" BY OVERHEATING ECONOMY OR CHANGING TOO GREATLY SOCIAL VALUES. IN SHORT, BENEFITS OF OIL DEVELOPMENT ARE RECOGNIZED, BUT ARE TO BE WEIGHED AGAINST CHANGES IN VALUES AND IN A LIFESTYLE WITH WHICH THERE IS A DEEP ATTACHMENT.

B. TO PREVENT OIL DEVELOPMENT PLACING UNACCEPTABLE STRAINS ON SOCIETY AND THE ECONOMY, AN INDICATIVE TARGET OF 90 MILLION TONS A YEAR WAS SET FOR FUTURE PRODUCTION. (THIS, IT WAS THOUGHT, LIMITED OFFICIAL USE

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COULD BE REACHED FROM FIELDS THEN UNDER DEVELOPMENT.) IN GENERAL NEW CONCESSIONS ARE TO BE ISSUED ONLY TO KEEP PRODUCTION STEADY AT (OR NEAR) 90 MILLION TONS OF OIL A YEAR.

3. MAINTAINING PRODUCTION AND REVENUE

A. THIS LATTER CONSIDERATION IS NOW BEING GIVEN A GREAT DEAL OF ATTENTION. FIRST, WAGE COST INCREASES WELL IN EXCESS OF PRODUCTIVITY GAINS HAVE RAISED PER UNIT COSTS IN NORWEGIAN INDUSTRY TO WORLD'S HIGHEST. THIS, PLUS SLACK DEMAND FOR INDUSTRIAL EXPORTS, HAS SUBSTANTIALLY ERODED NORWAY'S INDUSTRIAL SECTOR. REVERSES IN SHIPPING AND SHIPBUILDING HAVE ALSO WEAKENED NORWAY'S COMPETITIVE POSITION INTERNATIONALLY. TO FINANCE THIS, AND AN AMBITIOUS STRUCTURAL ADJUSTMENT PROGRAM, PLUS GROWING COST OF OFFSHORE DEVELOPMENT, NORWEGIANS HAVE BEEN BORROWING SUBSTANTIALLY AGAINST POTENTIAL OIL REVENUES. NORWAY'S NET FOREIGN DEBT IS PROJECTED TO BE ABOUT 18.2 BILLION DOLLARS AT END OF 1978, A QUINTUPLING IN ONLY FOUR YEARS.

B. AND SECOND, EKOFISK COMPLEX IS ONLY PRESENT NORTH SEA INCOME PRODUCER, AND OIL AND ESPECIALLY HAS HAVE COME NOWHERE NEAR TO ACHIEVING ORIGINAL PRODUCTION PREDICTIONS. ESTIMATES OF PROVEN

RESERVES IN NORWEGIAN SECTOR OF NORTH SEA HAVE BEEN DOWNGRADED, AND BECAUSE OF LIMITS ON EXPLORATORY DRILLING NOT MUCH HAS BEEN ADDED TO RESERVES IN LAST FEW YEARS. THERE HAVE ALSO BEEN DELAYS IN FIELD DEVELOPMENT AND COSTS HAVE RISEN TREMENDOUSLY. (STATFJORD IS BEING REFERRED TO BY SOME AS WORLD'S LARGEST MARGINAL FIELD.) GON HAS BEGUN TO APPEAR VERY WORRIED THAT PRODUCTION FROM FIELDS COMMITTED TO DEVELOPED WILL PEAK AT ABOUT 70 MILLION TONS A YEAR SOMETIME BEFORE 1985 AND DROP OFF SHARPLY THEREAFTER.

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C. WE SEE FOR FIRST TIME EXPLICIT RECOGNITION BEING GIVEN TO FACT THAT NORWAY'S OIL REVENUE NEEDS COMMIT THE COUNTRY TO MAINTAINING A STEADY STREAM OF OIL REVENUES WELL BEYOND WHAT PRESENT FIELD DEVELOPMENT CAN PROVIDE. AS ONE THOUGHTFUL EDITORIAL PUT IT RECENTLY, "DESPITE EXPECTATIONS TO CONTRARY, TODAY NORWAY IS VERY FAR FROM BEING CONCERNED WITH ITS ROLE AS A CAPITAL EXPORTER." BASIC POLICY IS NOT CHANGING, BUT INTERPRETIVE EMPHASIS IS NOW ON ASSURING ADEQUACY OF OIL DEVELOPMENT EFFORTS AS OPPOSED TO MODERATING IMPACT OF DEVELOPMENT EFFORTS.

4. NEW CONCESSIONS AND THE GOLD BLOCK

A. LAST MARCH GOVERNMENT PUT BEFORE PARLIAMENT A PROPOSAL TO ALLOCATE SIXTEEN MORE BLOCKS SOUTH OF 62ND PARALLEL. THIS WAS LIMITED OFFICIAL USE

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TO HAVE BEEN FOURTH ROUND OF ALLOCATIONS, TO BE ISSUED SO AS TO CONTINUE OIL AND GAS PRODUCTION ON A RELATIVELY LEVEL BASIS PAST THE EXPECTED PEAK OF PRESENT DEVELOPMENT. BECAUSE OF APRIL BRAVO BLOWOUT, HOWEVER, PROPOSAL WAS WITHDRAWN.

B. NOW, TIGHTENED CRITERIA FOR LEASING WILL BE PROPOSED TO PARLIAMENT AND AN ALMOST IDENTICAL REPORT VO THAT OF LAST MARCH IS TO BE MADE REGARDING CONCESSIONS, BEFORE YEAR'S END, SIXTEEN BLOCKS WILL BE PROPOSED FOR LEASE, AMONG WHICH ARE SOME OF MOST IMPORTANT REMAINING SOUTH OF 62 DEGREES INCLUDING AREAS AROUND EKOFISK, HEIMDAL, AND MOST IMPORTANTLY STATFJORD. (BLOCKS ARE 1/2, 24/6, 25/5, 29/3, 30/1, 30/2, 30/3, 30/6, 31/2, 31/4, 31/7, 34/2, 34/4, 34/10, 34/11, AND 35/5.

C. ONE OF BLOCKS IN NEW CONCESSION ROUND, BLOCK 34/10 ADJACENT TO STATFJORD, IS "GOLD BLCK", SO CALLED BECAUSE CHANCES OF A SUBSTANTIAL FIND ARE CONSIDERED BY GOVERNMENT AND INDUSTRY SOURCES AS VERY GOOD. A LARGE FIND IN THIS BLOCK WOULD MEAN A GREAT DEAL FOR PLANS FOR A STATFJORD/MAINLAND PIPELINE AND WOULD GREATLY IMPROVE CURRENT ECONOMIC PROJECTIONS FOR STATFJORD ITSELF. STATE-OWNED OIL COMPANY, STATOIL, WILL GET FROM 85 TO 100 PERCENT OF THIS CONCESSION, DEPENDING ON OUTCOME OF AN IDEOLOGICAL DEBATE NOW UNDERWAY OVER PUBLIC VS. PRIVATE ROLE IN NORWEGIAN EFFORTS IN NORTH SEA.

D. IT IS NOW EXPECTED THAT THE PARLIAMENT WILL APPROVE THE NEW CONCESSIONS IN EARLY 1978 SO THAT DRILLING CAN BEGIN IN THE 1978 DRILLING SEASON. THE GOVERNMENT IS BETTING THAT NEW PRODUCTION FROM THESE AREAS WILL EXTEND NORWAY'S OIL REVENUE STREAM AT A ROUGHLY CONSTANT RATE AT LEAST THROUGH THE END OF THE 1980S. (THE GOVERNMENT WILL QUICKLY MOVE TO ISSUE NEW LEASES IF EXPECTATIONS FOR THESE BLOCKS ARE NOT BORN OUT.)

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5. REVISED LEASING CRITERIA

BLOCK ALLOTMENTS WILL BE MADE ACCORDING TO SAME PROCEDURES WHICH HAVE BEEN APPLIED IN EARLIER ROUNDS, BUT SORTING IS EXPECTED TO ENDORSE MORE STRINGENT APPLICATION AND SUPERVISION. AN IMPORTANT ELEMENT TO BE INTRODUCED IN THESE LEASES FOR FIRST

TIME IS A STANDARD CLAUSE WHICH WILL GIVE NORWEGIAN AUTHORITIES POWER TO POSTPONE DEVELOPMENT OF ANY NEW FINDS IN SUBJECT BLOCKS, AS WELL AS TO REGULATE PRODUCTION RATES FROM FIELDS WHICH HAVE COME INTO PRODUCTION. THIS CLAUSE HAS AND WILL BE GIVEN MUCH PUBLIC AIRING AS A MEASURE TO ALLOW THE AUTHORITIES A TIGHT REIN OVER PRODUCTION RATES; IT IS CONSIDERED ESSENTIAL TO PROCESS OF CREATING A PUBLIC PERCEPTION THAT GOVERNMENT RATHER THAN INTERNATIONAL COMPANIES, CONTROLS OIL DEVELOPMENT PROCESS.

6. INCREASING PRODUCTION AND REVENUE

GROWING PUBLIC AWARENESS HERE THAT OIL FIRED "QUALITATIVELY BETTER SOCIETY" IS NOT YET ASSURED SUGGESTS NEW ROUNDS OF LEASING SOUTH OF 62 DEGREES AND LONG AWAITED DECISION ON CONCESSIONS IN NORTH, POSTPONED MOST RECENTLY BECAUSE OF EKOFISK BLOWOUT. AS NOTED, SUCCESS OF THE PRESENT LEASING ROUND WILL DETERMINE HOW QUICKLY GOVERNMENT MOVES ELSEWHERE SOUTH OF 62 DEGREES. IN THE NORTH, A PROPOSAL TO STARTING PROPOSING LIMITED DRILLING IN AREA OFF TROMSO (AND DETAILING SAFETY MEASURES AND OIL SPILL PREPAREDNESS AIMED AT MINIMIZING THE IMPACT ON MARINE LIFE OF THE AREA) WILL BE MADE ABOUT JUNE 1978. GIVEN STARTING PROCEDURES, THIS WILL NOT BE CONSIDERED IN ALL PROBABILITY UNTIL SPRING OF 1979 WITH EXPECTATION THAT INITIAL EXPLORATORY DRILLING COULD THEN BEGIN AS EARLY AS MID-1979.

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Message Attributes

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